

TAX PHASE-IN GUIDELINES

FOR

BEXAR COUNTY

AND

THE CITY OF SAN ANTONIO

Policy Statement

The growth and diversity of a regional economy is critical to the long-term well being of a community and its citizens. Today, perhaps more than ever, communities must strategically plan and implement policies to achieve these goals. Through joint Tax Phase-in Guidelines for Bexar County and the City of San Antonio, the collaborative efforts of San Antonio's economic development partners are refining strategies to attract and grow targeted industries in order to increase employment, expand the tax base, and create long-term investment and new wealth opportunities in the community.

Both the City Council of the City of San Antonio and the Commissioners Court of County of Bexar, Texas will consider these guidelines to ensure that any abatement of property taxes achieves these community economic development goals.

While these Guidelines represent the joint economic development interests of Bexar County and the City of San Antonio for projects located within the corporate limits of San Antonio, the County will use the guidelines when considering abatements for any project to be located within its jurisdictional boundaries.

Introduction

Chapter 312 of the Texas Tax Code authorizes local governments to abate ad valorem property taxes on the value of new improvements to the property, including real property, tangible personal property, and inventory and supplies. Taxing jurisdictions (e.g., Bexar County and the City of San Antonio) are required by this statute to develop and periodically review guidelines every two years for the eligibility and award of this tax incentive.

State law further requires that each taxing jurisdiction enter into a Tax Abatement Agreement with each owner of property or the owner of a leasehold interest in real property receiving an abatement or portion thereof. These agreements are binding legal documents between all parties involved. Additional provisions and requirements are included in those agreements.

Eligibility Criteria

Under these Guidelines, to be eligible for consideration by these jurisdictions for a tax abatement, a company or project must meet and/or exceed all of the criteria, as described below:

- Minimum amounts of real or personal property investment must be achieved
- Minimum levels of full-time job creation must be achieved
- Employee access to health care benefits must be provided
- Minimum wage requirements for employees must be achieved
- Applicant must be in a targeted industry, or non-targeted industry but meeting exceptional investment requirements

The amount and term of the tax abatement will also be impacted by:

- The location of facility
- Other incentives used for same project
- Overall benefit to the community

These eligibility criteria, with the exception of the requirement of employee access to health care, do not apply to central city multi-family housing or mixed-use projects. The criteria for these projects can be found in Appendix A.

Investment

If the project meets the following investment criteria, as well as the other criteria in these Guidelines, the Applicant will be eligible for an abatement of taxes on either the real property improvements **AND/OR** the new personal property investment. The following eligibility criteria do not apply to central city multi-family housing or mixed-use projects.

LEVEL 1 PROJECT

Should the project meet the following investment criteria:

1. Real property improvements of at least \$1,000,000 in the property of interest **OR**
2. Investment of at least \$10,000,000 in new tangible personal property located at the property of interest, **AND**
3. Creation and maintenance of at least 25 new, full-time, permanent jobs

the company will be able to select an abatement of taxes of:

1. Up to 100% (40% from the County) on the real property improvements **OR**
2. Up to 100% (40% from the County) on the new personal property investment.

LEVEL 2 PROJECT

Should the project meet the following investment criteria:

1. Total capital investment (real property improvements and new personal property investment) of at least \$25,000,000 in the property of interest **AND**
2. Creation and maintenance of at least 250 new, full-time, permanent jobs at the property of interest

the company will be able to select an abatement of taxes from one of the following categories, but not both:

1. Up to 100% (40% from the County) on the real property improvements **AND** up to 50% (20% from the County) on the new personal property investment **OR**
2. Up to 100% (40% from the County) on the new personal property investment **AND** up to 50% (20% from the County) on the real property improvements.

LEVEL 3 PROJECT

A project will be considered an “exceptional investment” if the project meets the following criteria:

1. Total capital investment (real property improvements and new personal property investment) of at least \$50,000,000 in the property of interest **AND**
2. Creation and maintenance of at least 500 new, full-time, permanent jobs at the property of interest

Such projects will be eligible for an abatement of taxes of up to 100% (40% from the County) on the real property improvements **AND** the new personal property investment.

Additionally, a local company expanding its operations in Bexar County must hire at least 25% of its new employees from residents of Bexar County, regardless of the size of the project.

Employee Health Care Benefits

The company seeking an abatement under these Guidelines must provide each full-time person employed at the project location and his or her dependents with access to affordable health insurance within a reasonably timely manner from the date the employee starts employment. **This criteria also applies to employees of central city multi-family housing projects.**

Wage Requirement

In order to be eligible for a tax abatement, companies must meet the following wage requirements:

1. Throughout the term of the abatement, all (100 percent) new and existing employees of the company requesting a tax abatement, *at the project location*, must earn a cash wage exceeding the poverty level for a family of four, as determined annually by the U.S. Department of Health and Human Services (HHS). This Wage Requirement is indexed each year. Effective October 1, 2004, this Wage Requirement equals \$9.06 per hour.¹
2. Within one year of project location opening, 70 percent of all new and existing employees at the project location must earn a cash wage exceeding the average hourly durable goods or non-durable goods (which includes services) wage standard, depending on how the company's activities at the project location are categorized.
 - a. Average Hourly Wage for Durable Goods: This is the wage standard for those companies engaging in durable goods manufacturing at the project location, at the time the tax phase-in agreement is executed. As published by the Texas Workforce Commission, the wage standard is determined by the average annual hourly wage for durable goods manufacturers in the San Antonio Metropolitan Statistical Area. This Wage Requirement is indexed each year (see footnote). Effective October 1, 2004, this wage is currently \$11.03 per hour.
 - b. Average Hourly Wage for Non-Durable Goods and Services: This is the wage standard for those companies engaging in non-durable goods manufacturing at the project location, at the time the tax phase-in agreement is executed. As published by the Texas Workforce Commission, the wage standard is determined by the average hourly wage for non-durable goods manufacturers in the San Antonio Metropolitan Area. This wage standard also applies to those companies engaged in services activities at the project location. This Wage Requirement is indexed each year (see footnote). Effective October 1, 2004, this wage is currently \$11.00 per hour.
 - c. For small, minority, or women-owned businesses with 100 or fewer employees, the City and County may consider abatements for firms whose wage levels may not meet the Average Hourly Wage for Durable Goods or the Average Hourly Wage for Non-Durable Goods and Services (outlined above).

If the company does not meet and maintain this Wage Requirement for all pertinent employees going forward, the company will be considered in default of the Agreement,

¹ Once a company executes a tax abatement contract with the City of San Antonio or Bexar County, the wages are fixed for the term of the contract at the level at which they were indexed in the Guidelines at the time of execution of the contract.

possibly resulting in termination of the Agreement and subject to recapture of prior abated property taxes.

Targeted Industries

The majority of the company's business at the project location must be engaged in one of the following Targeted Industries, as defined in Appendix A:

- Agribusiness
- Aviation/Aerospace
- Biotechnology
- High Level Business Services
- Information Technology and Security
- Logistics and Distribution
- Manufacturing
- Telecommunications

Additionally, the following projects, as defined in Appendix A, are also eligible for consideration:

- Corporate and Regional Headquarters
- Central City Multi-Family Housing or Mixed-use Project

Non-targeted Industry

Companies whose majority business is not in a Targeted Industry may still be eligible for a tax abatement only if they meet the criteria of a Level 3 Project as defined above.

Regardless of the investment or jobs created, retail stores, retail centers, or businesses that competitively provide goods or services to consumers are not eligible for an abatement. In addition, hotel or motel facilities and outbound or contract call centers (see definition in Appendix A) are not eligible for an abatement. Furthermore, Neighborhood Empowerment Zones may not be used to grant abatements of sales taxes.

Targeted Areas for Investment and Job Creation

Certain areas are targeted for job creation and investment. Depending on the location of the project, the term of the abatement will vary, as follows (see map in Appendix B):

Areas eligible for a 10-year term:

- Projects located within Loop 410 or located south of U.S. Highway 90 will be eligible for an abatement term up to 10 years.
- Projects located within the Medical Center area, the boundaries of the San Antonio International Airport, or the Texas Research Park Foundation.

Areas eligible for a 6-year term:

- Projects located outside of Loop 410 and also located north of U.S. Highway 90 will be eligible for an abatement term up to 6 years.

Projects located over the Edwards Aquifer Recharge Zone or Contributing Zones:

- Projects located in whole or in part over the Edwards Aquifer Recharge Zone, as defined in Appendix A, are not eligible for an abatement.
- Projects located in whole or in part over the Contributing Zone or the Contributing Zone within the Transition Zone, as defined in Appendix A, require an affirmative vote by eight existing City Council members for approval of the tax abatement.

These criteria will not be used to favor one location over another in Bexar County, except as permitted by the Guidelines.

Additional Terms and Conditions

Each jurisdiction reserves the right to negotiate additional terms and conditions on a case-by-case basis.

Recipients of tax abatements will also agree to work with Alamo Workforce Development Inc. to facilitate the posting and advertisement of new jobs at the property of interest, as well as for the recruitment of potential qualified applicants for these positions. Alamo Workforce Development Inc. offers other employer services, such as assessment of basic skills and work aptitudes of potential employees, job matching services, labor market information, assistance in arranging workforce training, and outplacement services which the recipient may also access.

Amount of County Abatement

Property taxes are the single largest source of operating funds for Bexar County (70% of its General Fund revenue), while they are the third largest source of operating revenue for the City of San Antonio. So, dollar for dollar, a tax abatement has a greater organizational impact on the County government than on the City government. To help equitably invest in economic development projects using tax abatements, the County may grant an abatement of taxes up to 40% on the qualified real property improvements and new personal property investment. Applicants may, however, negotiate for additional County abatement participation if the project meets certain other criteria, as defined below. Commissioners Court shall not grant a tax abatement for the Flood Control tax levied by the County or for taxes levied on behalf of the University Health System.

Bexar County may increase the amount of the abatement up to 80% of taxes on qualified real property improvements and new personal property investment after considering these other project criteria:

- **Local Hire Incentive:** Applicant agrees to fill at least 25% of the employment positions created and maintained with individuals whose place of residence, for at

least six months prior to employment with the applicant, is located in Bexar County.

- **Hiring of Economically Disadvantaged or Dislocated Individuals Incentive:** Applicant commits that at least 25% of the employment positions created will be filled with economically disadvantaged and/or dislocated individuals.
- **Small, Minority, Women-owned Business Enterprise (SMWBE) Incentive:** Applicant agrees to make a good faith effort to award at least 25% of its contracted work to minority and women-owned business and will make a good faith effort to award at least 10% of its contracted work to small businesses. A good faith effort is defined as the applicant increasing involvement of SMWBEs in the projects procurement process within the areas of commodities, equipment, services (non-professional and operations), maintenance and construction.
- **Environmental Practices Incentive:** Applicant commits to demonstrating sound environmental practices when constructing, operating and maintaining the project. This includes, but is not limited to, the utilization of clean and renewable energies; the implementation of water conservation practices and flood protection measures; the provision of incentives for mass transportation alternatives to employment positions created and maintained; and the sponsorship of other innovative practices that serve to minimize the project's environmental impact and to protect water, land and energy resources for the economic benefit of the community.

Firms may also be considered for an additional 20% County tax phase-in on a case by case basis. For the final 20%, a County negotiating team composed of the County Judge, the Commissioner in whose Precinct the project will be located, and appropriate staff will negotiate, at the County's discretion, terms and conditions for any abatement of the final 20%. The County will give preference for payments in lieu of taxes in an amount equal to the final 20% being abated. These payments will be used for designated purposes, such as educational grants and funding, and other non-profit assistance. Consideration will be given for payments in lieu of taxes that will serve as cash matches to help leverage private sector investment in such educational and non-profit uses. In any case, these agreements are subject to final approval of the Commissioners Court as a whole, as is the case for all tax phase-in agreements.

Recapture of Abated Taxes

Tax abatement agreements will provide for recapture of abated property taxes in the event contract requirements are not met.

APPENDIX A

DEFINITIONS

Agribusiness: Businesses engaged in the research, development, manufacturing, or refining of agricultural products into foodstuffs or for use as intermediate products in the processing of other agricultural finished goods or products, including those related to defense operations.

Aviation/Aerospace: Companies primarily engaged in one or more of the following activities:

- (1) Manufacturing complete aircraft, missiles, or space vehicles
- (2) Manufacturing aerospace engines, propulsion units, auxiliary equipment or parts
- (3) Developing and making prototypes of aerospace products
- (4) Aircraft conversion (i.e., major modifications to systems)
- (5) Complete aircraft, missile, or space vehicle or propulsion systems maintenance, repair, overhaul and rebuilding (i.e., periodic restoration of aircraft to original design specifications)
- (6) Research and development
- (7) Defense- related operations
- (8) Regional air passenger operations

Biotechnology: This industry comprises establishments primarily engaged in conducting research, development, and manufacturing in the physical, bio-engineering, and life sciences, such as pharmaceutical, agriculture, environmental, biology, botany, biotechnology, chemistry, food, fisheries, forests, health, and defense-related operations.

Call Center: A business in which the main task of a predominant number of the employees at the location is to receive communications via telephone, fax, electronic mail, or postal service for the purposes of providing customer service may be eligible for a tax abatement. A business whose predominant function is to make outbound calls or a business who contracts their call center services to other companies, regardless of whether or not the communications are inbound or outbound, are not eligible for a tax abatement.

Central City Multi-family Housing or Mixed-use Project: Multi-family market rate housing project or mixed-use project, defined as a project with housing units constituting at least 75 percent of the usable enclosed space, located within boundaries of the Empowerment Zone. Any tax increment reinvestment zones or tax increment financing zones within the aforementioned areas are excluded. See map in Appendix C.

Contributing Zone: The area or watershed where runoff from precipitation flows downgradient to the recharge zone of the Edwards Aquifer. The contributing zone is illustrated on Contributing Zone (Southern Part) for the Edwards Aquifer and Contributing Zone (Northern Part) for the Edwards Aquifer. The contributing zone is located upstream (upgradient) and generally north and northwest of the recharge zone for the following counties (See map in Appendix D):

- (A) all areas within Kinney County, except the area within the watershed draining to Segment 2304 of the Rio Grande Basin;
- (B) all areas within Uvalde, Medina, Bexar, and Comal Counties;
- (C) all areas within Hays and Travis Counties, except the area within the watersheds draining to the Colorado River above a point 1.3 miles upstream from Tom Miller Dam, Lake Austin at the confluence of Barrow Brook Cove, Segment 1403 of the Colorado River Basin; and
- (D) all areas within Williamson County, except the area within the watersheds draining to the Lampasas River above the dam at Stillhouse Hollow reservoir, Segment 1216 of the Brazos River Basin. (From TCEQ rules 30 TEX. ADMIN. CODE Chapter 213 Subch. B §213.22(2))

Contributing Zone within the Transition Zone: The area or watershed where runoff from precipitation flows downgradient to the Recharge Zone of the Edwards Aquifer. The Contributing Zone Within the Transition Zone is located downstream (downgradient) and generally south and southeast of the Recharge Zone and includes specifically those areas where stratigraphic units not included in the Edwards Aquifer crop out at topographically higher elevations and drain to stream courses where stratigraphic units of the Edwards Aquifer crop out and are mapped as Recharge Zone. See map in Appendix D. (From TCEQ rules, 30 TAC, § 213.22(3))

Corporate and Regional Headquarters: The firm's corporate or regional legal principal place of business is located in Bexar County, and its total assets will be at least \$500,000,000 and/or its total revenues will be at least \$500,000,000 for the corporate fiscal year preceding the date of the filing of its application for Tax Phase-In with the City of San Antonio or Bexar County. This does not include the corporation's retail outlets.

High Level Business Services: Includes businesses or divisions of corporations that are primarily engaged in business support functions that require a high level of technical expertise, including, but not limited to finance/accounting, insurance/risk management, marketing, real estate/planning, project management, and other analytical services or transactional operations. It does not include call center operations, as previously defined. It is required that a majority of the positions at the project site require a bachelors degree, professional degree, or equivalent relevant professional experience.

Information Technology and Security: This industry comprises establishments primarily engaged in planning and designing computer systems that integrate computer hardware, software, and communication technologies. The hardware and software components of the system may be provided by this establishment or company as part of integrated services or may be provided by third parties or vendors. These establishments often design and develop software, install the system and train and support users of the system.

Companies in this industry are engaged in the following activities:

- (1) Producing and distributing information and cultural products
- (2) Providing the means to transmit or distribute these products as well as data or communications
- (3) Research and development
- (4) Defense-related operations
- (5) Processing data

Logistics/Distribution: Businesses involved in the receiving, storage, service, or distribution of goods or materials, where a majority of the goods or services are distributed to points outside the San Antonio metropolitan statistical area. This includes defense-related operations.

Manufacturing: Businesses engaged in the mechanical, physical, or chemical transformation of materials, substances, or components into new products - includes related research and development and defense-related operations.

Medical Center Area: The area bound by Louis Pasteur to the South, Babcock Road to the West, Fredericksburg Road to the East, and Huebner Road to the North.

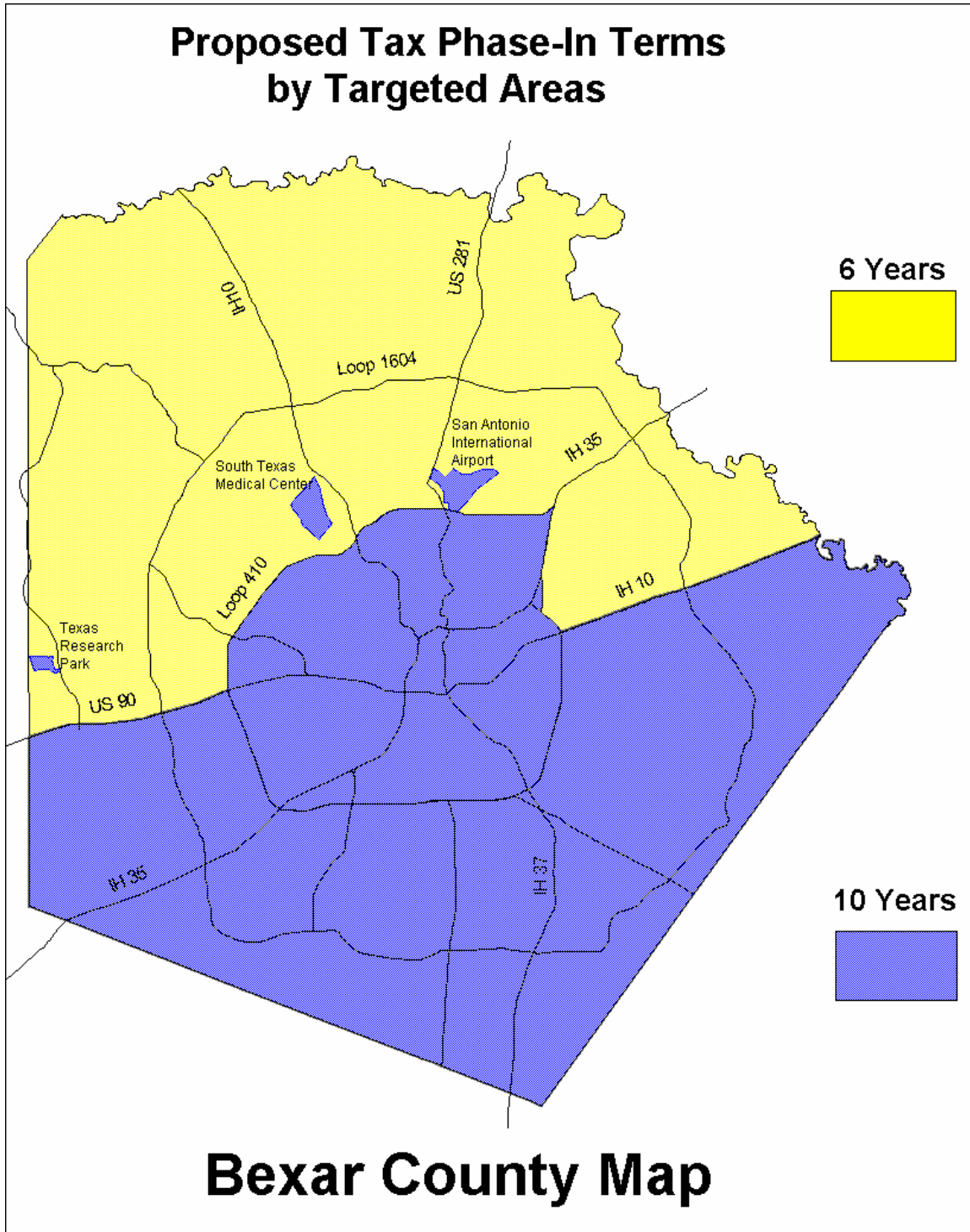
Recharge Zone: That area where the stratigraphic units constituting the Aquifer crop out, including the outcrops of other geologic formations in proximity to the Aquifer, where caves, sinkholes, faults, fractures, or other permeable features would create a potential for recharge of surface waters into the Aquifer. The recharge zone is identified as that area designated as such on official maps located at the Authority and in 30 TEX. ADMIN. CODE § 213.22. See map in Appendix D. (From Edwards Aquifer Authority rules, Chapter 713.1(45))

San Antonio International Airport Area: San Antonio International Airport is located in the north central portion of the city and is generally bounded by Wurzbach Parkway to the north, US 281 to the west, Loop 410 to the south and Wetmore Road to the east.

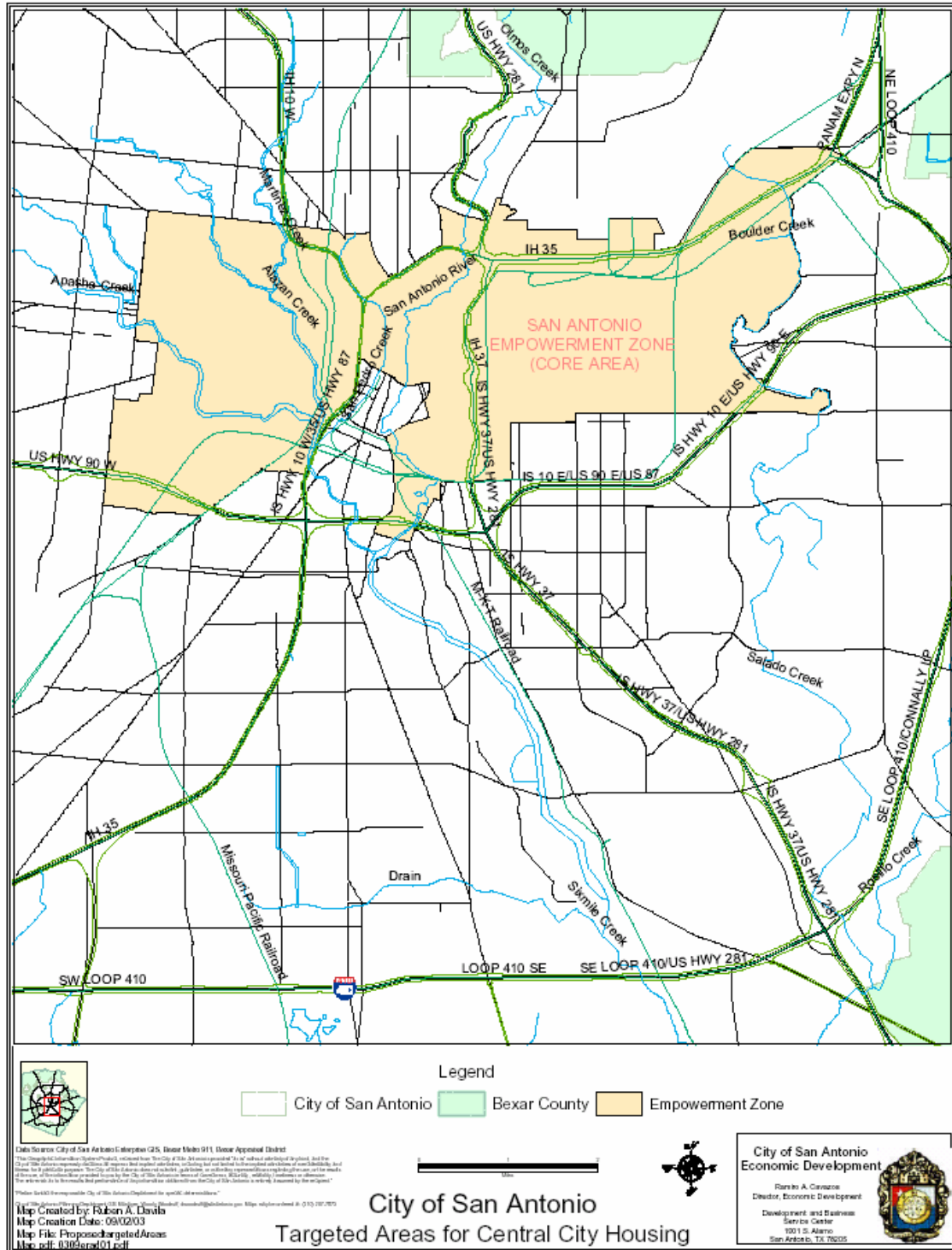
Telecommunications: Businesses primarily engaged in research & development, regional distribution, defense-related operations and the manufacturing of telecommunication-related products and services. It does not include operations involved in the retail sale of telecommunications products and services. It also does not include operations categorized as call centers.

Texas Research Park: The Texas Research Park is a 1,236-acre site, located in West Bexar County and connected to U.S. Highway 90 and Potranco Road (State Highway 1957). The Texas Research Park supports the development of a world-class center of bioscience research and medical education.

APPENDIX B



APPENDIX C



APPENDIX D

